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FOREIGN AGRICULTURAL ECONOMIC REPORT NO. 82

SWEDEN'S PRIVATE-BRAND FOOD MARKET:

**DIMENSIONS AND
PROSPECTS FOR
U.S. EXPORTS**

ECONOMIC RESEARCH SERVICE
IN COOPERATION WITH
FOREIGN AGRICULTURAL SERVICE,
U.S. DEPARTMENT OF AGRICULTURE

ABSTRACT

The study investigates Sweden's private-brand food market and the potential for increasing U.S. food exports to Sweden for distribution under private labels of Swedish food retailers and manufacturers. The retailers' private-label market offers few such opportunities, primarily because this highly concentrated market has limited growth potential. Swedish food manufacturers, however, are interested in increasing their imports of U.S. processed and semiprocessed foods for distribution under their Swedish-manufacturer label.

Sweden's food marketing system in general is also examined, and the socioeconomic forces contributing to its growth are discussed. Income and food expenditure levels are rising and demand for food product diversity is increasing. This suggests that prospects for increasing exports of U.S. food products that are well known to Swedish consumers are bright.

Keywords: Sweden; Food; Marketing; Agricultural exports.

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SUMMARY

Prospects for increasing U.S. food exports to Swedish manufacturers for distribution under these manufacturers' labels are limited, but opportunities in this private-label market are promising enough to warrant thorough study by interested U.S. food processors. Sweden's retailer-label food market offers few such opportunities, however, primarily because this part of the private-label market has limited growth potential. For U.S.-manufacturer brand foods that are well known in Sweden, the prospects for increasing exports are bright.

Swedish food manufacturers interviewed in this study are interested in importing not only more processed U.S. foods for distribution under their Swedish label, but also more semiprocessed foods. The manufacturers are confronted with rising domestic labor costs and advances in production technology. These factors, in turn, necessitate larger plants and outputs if the manufacturers are to operate profitably in a market serving only 8 million people. As a result, the food manufacturers are interested in substituting some imported products for their own production if prices of the imported products are lower than this production. In the case of complex new convenience foods, the manufacturers indicated that they might prefer not to undertake production in Sweden, or at least not until sales become large enough to make domestic production profitable.

In Sweden's retailer-label food market, annual sales are about \$400 million, or 10 percent of total retail food sales. A large share of the private, retailer-label food market is held by consumer cooperative food and department stores that are members of the Federation of Swedish Consumer Cooperatives (KF). KF has manufacturing and wholesaling subsidiaries and is Sweden's fourth largest industrial enterprise. All but a few of the consumer cooperatives' products are produced by KF's manufacturing subsidiary. KF's food-processing factories import only limited amounts of food for processing. Because the factories are increasing their production about as fast as the co-op stores are increasing their food sales, the factories' food imports are not expected to increase.

A small assortment of retailer-label foods are sold by independent grocers who are members of Inkocentralernas, AB (ICA)--Sweden's big retailer organization. Most ICA-label foods are processed in ICA plants. The growth potential for these retailer-label foods is limited.

Several U.S. manufacturer-brand foods have strong market positions in Sweden, primarily because Sweden's modern food brokerage houses have aided U.S. manufacturers in marketing their products. Because of rising Swedish incomes, food expenditures are expected to increase 2.6 percent a year in the 1970's. Because of this growth and increased demand for food product diversity, demand for U.S. manufacturer-brand foods that are well known in

Sweden can be expected to increase. Rapid expansion is especially expected in sales of convenience and health foods, winter-season fresh fruits and vegetables, and, in general, high-quality, labor-saving food products.

Any growth in U.S. food exports to Sweden will be limited to U.S. products now being exported to that country. These are mainly fresh fruits, fruit juices, vegetables, nuts, rice, and a few other products that are not subject to Sweden's high import taxes on agricultural commodities produced domestically. However, certain convenience foods--such as some snack-foods--may surmount the import tax barrier. Despite high import taxes on the products' basic ingredients, the value of these ingredients--and therefore the amount of the import tax--may be only a small fraction of the products' retail price.

Sweden's food marketing system is modern, dynamic, and highly concentrated. In the near future, no more than six large retailing organizations probably will have 90 percent of the country's retail food market plus most of the institutional (food-service) trade. In food manufacturing, even higher levels of concentration are common. In most product lines, only two to four companies have 60 percent or more of the Swedish market.

Competition among the leading Swedish food retailers and processors is intense. Like their North American counterparts, the Swedish companies are strongly consumer oriented and have similar growth and profit goals. They are managed by skilled executives who know their market well and who effectively employ modern marketing strategies. For U.S. food manufacturers and distributors to effectively market their products in Sweden, they must employ the same marketing expertise and strategies that they use in U.S. and Canadian markets.

SWEDEN'S PRIVATE-BRAND FOOD MARKET:
DIMENSIONS AND PROSPECTS FOR U.S. EXPORTS

by

Norris T. Pritchard 1/

I.--INTRODUCTION

For centuries, retailers have sold goods under their own private labels. But modern private-brand food marketing and the associated competition between private and manufacturer brands are outgrowths of large-scale retailing and manufacturing (4). 2/ A retailer-brand food is the private brand of a firm whose main business is distribution, whereas a manufacturer brand is the property of a manufacturer whose main business is processing. 3/ An important variant of private-brand food marketing is when one manufacturer's product is sold to another manufacturer for distribution under the second manufacturer's label.

Some retailer-label foods are produced by the manufacturing divisions of large food distributors, but most of these products are made by independent manufacturers according to retailers' specifications. In normal trade practice, the distributor--not the manufacturer--assumes responsibility for and pays all costs of marketing his own brands, which are sold only through his own stores.

A private-brand food can be an important marketing tool for a large retailer. He can use it to create a distinctive and favorable store image, attract price-sensitive consumers, develop and maintain customer loyalty, limit the size and costs of store inventories, increase sales and profits, and enhance his bargaining power with manufacturers.

1/ The author, now deceased, was an Agricultural Economist in the Foreign Demand and Competition Division, Economic Research Service.

2/ Underscored numbers in parentheses refer to references listed at the end of this report.

3/ Private brands also are known as store, distributor, and controlled brands. Manufacturer brands may be called regional, national, and international brands to indicate the size of their marketing areas.

Research Goals

Preliminary observations of Sweden's food marketing system revealed high levels of concentration in food retailing and manufacturing. For example, only eight firms now account for about 75 percent of total retail food sales to Sweden's 8 million people. In food processing, it is not unusual for two or three companies to have market shares of 60 to 95 percent in major product groups. These structural conditions suggest, but do not prove, that private-brand foods can have a large and growing share of total retail food sales in Sweden, as in the United States and other industrial countries. A related hypothesis is that U.S. food product exports to Sweden can be increased if U.S. food manufacturers fully exploit Sweden's private-brand food market without thereby decreasing Sweden's imports of U.S. manufacturer brands.

Accordingly, the main purpose of this study is to evaluate the potentials and associated marketing strategies for increasing U.S. food exports to Sweden for distribution under Swedish private labels. These private labels include Swedish retailer's labels as well as Swedish manufacturer's labels. With respect to the latter market, earlier research has indicated that under certain conditions, a foreign manufacturer may import U.S. foods under his label for sale in his domestic market (19). The manufacturer may wish to broaden or complete his product line, utilize his sales force more efficiently, and increase his sales and profits by selling under his own label an item that he cannot produce in his own country. For example, a Swedish manufacturer of frozen foods may wish to include frozen sweet corn or frozen orange juice concentrate in his product line. Another factor favoring such marketing of imports in Sweden (and in similar, small high-wage markets) is the growing number of processed foods that a manufacturer can import at prices below Sweden's rising domestic production costs.

Another objective of the study is to determine the dimensions, nature, and probable development of Sweden's private-brand food market.

Research Methods

In this study, the author interviewed about 20 executives of leading Swedish food retailing, wholesaling, importing, and manufacturing companies; food trade associations; and Government agencies in a 2-week period in November and December 1971. Foodstores and factories were observed and data were obtained from company and trade association reports and from publications of the Swedish Government.

The principal findings and conclusions of this report, including an evaluation of their significance for U.S. food manufacturers, are presented in chapter II. Chapter III, which describes and evaluates the main social, economic, and institutional forces and developments affecting Swedish food marketing, contributes to a better understanding of the marketing of both private- and manufacturer-brand foods in Sweden.

II.--MARKET DIMENSIONS AND EXPORT PROSPECTS

The retailer-brand food market in Sweden, contrary to the main hypothesis of this study, now offers few good opportunities for expanding U.S. food exports to Sweden. Prospects for exporting larger volumes of some U.S. foods to Swedish food manufacturers for distribution under Swedish labels also are limited, but are promising enough to justify careful investigation by interested U.S. food manufacturers. In addition, prospects for expanding exports of U.S. manufacturer-brand foods that are well known to Swedish consumers remain bright.

The principal explanations of the above conclusions are embedded in the main elements of the Swedish marketing environment, as the discussion below indicates. These elements include the size and structure of Sweden's food marketing system, marketing policies of major food retailers and manufacturers, the Swedish system of high agricultural price supports and import taxes, and changing food consumption and shopping patterns.

Market Size

The Swedish food market is small both in actual sales and in comparison with several other European food markets and the U.S. market. Swedish food industry executives interviewed in this study stressed the importance of this fact in the marketing strategies and operations of all firms doing business in Sweden.

In 1970, the estimated market value of all food consumed in Sweden was \$4,458 million, which was about 3.9 percent of the estimated \$114 billion spent by U.S. consumers for food (9, 26). 4/ This big difference in market size is fully explained by an equally large population disparity. In mid-1970, Sweden had an estimated 8.05 million people, compared with an estimated 204.8 million in the United States (23, 27). Per capita food expenditures in the two countries, however, were almost equal in 1970--\$554 in Sweden and \$557 in the United States. 5/ The average Swede has a much smaller after-tax income than does the average U.S. consumer, but he spends more of it for food. In 1970, he spent 24.4 percent of his disposable income of \$2,271 for food, while the average U.S. consumer's food expenditures were 16.6 percent of his after-tax income of \$3,358. 6/

4/ Data are calculated at the 1970 exchange rate of 1 Swedish crown (Skr) = 19.3 U.S. cents. According to newspaper reports, the exchange rate in March 1972 was about 1 Skr = 20.8 U.S. cents.

5/ Both countries' food consumption estimates include expenditures for meals eaten away from home and the value of food consumed on farms where it is produced. The estimates exclude purchases of beverages and tobacco.

6/ These after-tax income data overstate the difference in real incomes. Sweden's publicly financed social welfare system provides many "free" health and other services that U.S. families buy with their own funds.

The average Swedish consumer also buys far more of his food in retail food stores than does the average U.S. consumer. In 1970, per capita food purchases in stores were \$488 in Sweden but only \$398 in the United States. In Sweden, total retail food sales were \$3,932 million, compared with \$81,466 million in the United States. 7/ Sweden's retail food sales represented 4.8 percent of U.S. retail food sales, but--as mentioned above--the country's total food consumption was only 3.9 percent of that in the United States. The difference stems mainly from the higher share of average U.S. family food budgets, 27.8 percent, spent in restaurants and other away-from-home food service establishments. The comparable figure for Sweden is 10 percent (6). In addition, the value of food consumed on farms where it was produced was 1.8 percent of total food consumption in Sweden in 1970 and 0.7 percent in the United States. Swedish retailers' share of total food expenditures was 88.2 percent, compared with U.S. retailers' share of 71.5 percent.

Agricultural Import Taxes

For U.S. exporters of some food and farm products, the small Swedish food market is effectively reduced to nearly zero size by special variable agricultural import taxes. These taxes apply to a long list of farm products that encompass the principal outputs of Sweden's farms and food processing industry--red meats, poultry, eggs, sugar, milk, food and feed grains, and food products processed from these basic commodities. The special levies, which approximate prevailing differences between domestic and world prices, are in addition to Sweden's generally low tariffs and are fully nondiscriminatory among exporting countries. 8/

Most of the variable import taxes are high. They average more than 90 percent of the landed value of the imports to which they apply and are formidable import barriers. A few examples of the tax rates effective in early March 1972, in U.S. dollars at 1972 exchange rates, are: 9/

Beef, fresh cuts.....	\$ 62.90	per cwt.
Beef, carcass.....	44.37	" "
Chickens, eviscerated, whole, frozen.....	27.18	" "
Turkey rolls, cooked, frozen.....	54.10	" "
Wheat.....	1.71	" bu.
Corn.....	1.78	" "
Peas, dry.....	2.81	" cwt.
Beans, dry.....	7.02	" "
Milk, nonfat dry solids.....	29.77	" "
Cheese, processed.....	27.37	" "
Butter.....	44.37	" "
Eggs, dried whole.....	131.04	" "
Fats and oils, except technical oils.....	13.43	" "

7/ Total foodstore sales in both countries were well above these estimates, which exclude sales of nonfoods, beverages, and tobacco.

8/ Although Sweden is a member of the European Free Trade Association (EFTA), the special agricultural import levies are the same whether the imported products come from another EFTA country or from third countries.

9/ Computed from basic data supplied by the Office of the Agricultural Attache, American Embassy, Stockholm.

This system of high agricultural import protection has two major purposes: to support Swedish farm incomes and to reduce rural-urban income differentials. The levies contribute to both goals by holding domestic farm product prices well above world market prices. Another important goal, also promoted by high domestic farm product prices, is to encourage Swedish farmers to keep Sweden nearly self-sufficient in food and, thereby, to permit the nation to remain neutral in time of war.

Without question, Sweden's special agricultural import taxes seriously affect the volume and composition of U.S. food and farm exports to that country. As table 1 clearly shows, U.S. agricultural exports to Sweden are highly concentrated in a few product groups. Of the \$59.6 million of direct U.S. agricultural exports to Sweden in the year ending June 30, 1971, fruits, vegetables, and nuts accounted for 42 percent and tobacco, cotton, rice, and cattle hides accounted for 40 percent. ^{10/} That is, nearly all U.S. agricultural exports to Sweden are products that are not subject to the special import taxes. Moreover, this pattern of U.S. agricultural exports to Sweden is not expected to change greatly any time soon. However, certain convenience foods--such as a snack food--may surmount the import tax barrier. Despite high taxes on the product's basic ingredients, the value of these ingredients--and therefore the amount of the import tax--may be only a small fraction of the product's retail price.

In the near future, Sweden's already high level of agricultural import protection is more likely to rise than to decline. The current 3-year agreement between the Swedish Government and the major farm organizations gave farmers substantial price increases on July 1, 1971. The agreement guarantees them two smaller increases on July 1, 1972 and 1973. These increases are designed to reduce prevailing rural-urban income differentials. The agreement also provides for additional increases each January and July under an "inflation rule." That is, farmers will be compensated for the adverse effects of inflation as indicated by changes in the consumer price index. In addition to increases in the special import taxes required by these increases in domestic farm product prices, the tax rates are adjusted from time to time when changes occur in world market prices.

Sweden's system of agricultural import protection and farm-income support may be modified when the current 3-year agreement expires in 1974. However, there is no certainty that the changes will significantly alter Sweden's domestic agricultural policy and import tax system. Recently, public criticism of the farm-income support policy has become widespread and intense. Early in 1972, thousands of consumers marched in Stockholm streets to protest against rapidly rising food prices resulting from Government-approved increases

^{10/} U.S. export statistics understate the volume and value of Swedish imports of U.S. agricultural products because they do not include data on transshipments through Copenhagen and other West European ports.

Table 1.--U.S. agricultural exports to Sweden, fiscal years
ending June 30, 1970 and 1971

SITC No. 1/	Product groups	1970	1971
		\$1,000	
00	Animals, live.....	213	270
	Horses.....	188	232
01	Meat and meat preparations.....	2,082	899
	Turkeys, parts, and whole, frozen.....	875	347
	Beef livers, fresh and frozen.....	729	388
02	Dairy products and eggs.....	1,090	514
	Milk and cream, dry.....	753	231
	Cheese, American-processed.....	284	255
04	Cereals and cereal preparations.....	1,970	2,024
	Rice, parboiled, long grain.....	565	757
	Rice, milled, long grain.....	380	438
	Corn.....	528	437
	Bakery products.....	202	99
05	Fruits and vegetables.....	25,037	24,741
	Oranges, fresh.....	229	112
	Lemons, fresh.....	607	753
	Apples, fresh.....	539	511
	Grapes, fresh.....	387	522
	Almonds.....	4,758	4,144
	Pears, fresh.....	686	482
	Strawberries, fresh.....	201	122
	Raisins.....	1,393	1,527
	Prunes, dried.....	1,521	1,738
	Mixed fruits, dried.....	733	513
	Orange juice, canned, not frozen.....	2,603	1,685
	Orange juice, concentrate, not frozen.....	162	451
	Orange juice, concentrate, frozen.....	1,187	4,687
	Peaches, canned.....	1,230	852
	Pineapples, canned.....	252	94
	Fruit cocktail, canned.....	990	859
	Carrots, fresh.....	215	35
	Lettuce, fresh.....	725	810
	Vegetables, frozen.....	175	197
	Potatoes, dehydrated.....	1,557	1,024
	Potato flakes and granules.....	572	522

Footnote at end of table.

Continued--

Table 1.--U.S. agricultural exports to Sweden, fiscal years
ending June 30, 1970 and 1971--Continued

SITC No. 1/	Product groups	1970	1971
		<u>\$1,000</u>	
	Vegetables, dehydrated, n.e.c.	418	612
	Asparagus, canned.....	631	214
07	Coffee, tea, and spices.....	428	443
	Spices.....	341	396
08	Feeding stuff for animals.....	638	972
	Oil cake and meal.....	448	478
	Dog and cat food.....	105	453
09	Miscellaneous food preparations.....	1,736	1,362
	Sauces and seasonings.....	479	354
	Sweet corn, canned.....	344	185
12	Tobacco and tobacco manufactures.....	12,335	17,293
	Tobacco, unmanufactured.....	12,335	17,293
21	Hides, skins, and furskins.....	526	1,410
22	Oilseeds, oil nuts, and oil kernels.....	200	1,064
	Soybeans.....	24	969
26	Textile fibers and wastes.....	4,328	3,789
	Cotton.....	4,328	3,789
29	Animal and vegetable materials, crude.....	998	1,401
	Grass seeds.....	558	886
42	Vegetable fats and oils.....	1,523	2,322
	Cottonseed oils.....	1,523	2,322
55	Essential oils.....	222	203
2/	Other agricultural products.....	1,068	2,003
	Total.....	54,194	59,646

1/ Standard Industrial Trade Classifications of the U.S. Dept. of Commerce.

2/ Includes SITC Numbers: 06, Sugar, sugar preparations, and honey; 11, Beverages; 23, Rubber, crude, and natural gums; 41, Animal oils and fats; 43, Fatty acids and waxes; 51, Vegetable lecithin and citric acids; and 59, Casein, albumin, starches, etc.

Source: U.S. Bureau of the Census.

in farm product prices and from other inflationary forces. 11/ On the other hand, the Government's long-standing commitment to improving the economic welfare of Swedish farmers seems to be strong. In addition, Sweden's highly organized farmers, who are for the moment on the defensive, may still have enough political power, despite their declining numbers, to continue to prevent major changes in Swedish agricultural policy in the foreseeable future.

Retailers' Private-Label Foods

Annual sales of retailer-label foods in Sweden are an estimated 10 percent of total retail food sales. As mentioned earlier, a retailer-label food is usually processed and packaged by an independent manufacturer according to the retailer's specifications. Such foods are generally sold only through the retailer's stores.

Retailer Organizations

A few Swedish retailer-label foods are sold by the independent grocers who are members of the large independent retail organization Inkocentralernas, AB (ICA). The ICA stores, which had a total food-market share of about 20 percent in 1970, sell primarily nuts, dried fruits, rice, jams, jellies, and preserves under ICA labels. These products are processed in ICA's manufacturing subsidiary, with some of the food processing factories simply repackaging bulk imports of U.S. rice, nuts, and dried fruits for distribution under ICA labels.

Consumer Cooperatives

A large share of the retailer-label food market in Sweden is held by chains of food and department stores that are members of the Federation of Swedish Consumer Cooperatives (KF). Together these co-op stores are Sweden's largest retailing enterprise: in 1970, they had 19 percent of Sweden's total retail market and more than 26 percent of the retail food market (6, 10). KF has manufacturing and wholesaling subsidiaries.

11/ Swedish press summaries for Feb. 17 to Mar. 2, 1972, supplied by the American Embassy, Stockholm, indicate that retail food prices rose 2.5 percent in January. This is equivalent to an annual rate in excess of 30 percent. On Feb. 26, Stockholm newspapers gave detailed accounts of a demonstration of an estimated 6,000 angry Stockholmers, mostly women, against what they considered were exorbitant food prices. Some press reports indicated that retail food prices in Sweden in early 1972 were the highest in the world. Other press reports stated that Swedish food processors and retailers were experiencing strong buyer resistance and that many Swedish families have been forced to alter normal shopping patterns in favor of less expensive diets.

A counterpart to the ICA stores, the KF consumer cooperatives sell broad assortments of their own label foods and nonfoods. KF foods sold by the Konsum cooperative, for example, include bread, other bakery products, breakfast cereals, flour, cakemixes, macaroni, spaghetti, other flour mill products, fresh and processed meats, coffee, cocoa and chocolate products, candy, margarine, salad and cooking oils, jams, jellies, preserves, ice cream, canned and frozen fish, canned and frozen fruits and vegetables, fruit juices, fruit drinks, and beer.

KF's manufacturing subsidiary processes most of the consumer cooperatives' private-label foods. The 1970 output of KF's several large food processing factories was valued at \$379 million (10). A small part of this production was sold to outside buyers, mainly other Scandinavian consumer cooperatives, but most of it went to the network of KF cooperative retail food and department stores.

KF imported about \$84 million of food products in 1970, chiefly raw and semiprocessed products for KF factories, packaged foods made by other Scandinavian cooperatives but sold under a KF label, and manufacturer-label foods from the United States and other countries. 12/ Only small volumes of KF-brand foods were purchased from other sources.

KF began to produce some of its own products more than 50 years ago. Since then, its investments in its manufacturing subsidiaries have continually increased. Today, KF firms are collectively Sweden's fourth largest industrial enterprise, in terms of value of factory production, and among the nation's largest food processors (13). Some of KF's factories are among the largest and most efficient in Sweden. In addition to providing the co-op stores with an assured supply of good quality merchandise, KF's factories undoubtedly enhance KF's bargaining (purchasing) position with other manufacturers. This is an advantage of considerable, but immeasurable, value in the highly concentrated, intensely competitive Swedish food industry, as chapter III indicates.

Limited Growth Potential

Although KF's food manufacturing subsidiaries are now expanding less rapidly than in some past periods, factory production of some food products, including canned and frozen fruits and vegetables, probably will increase greatly in the near future. 13/ That is, KF seems likely to continue to produce most of its own label food products.

12/ Most of KF's purchases of U.S. foods are manufacturer brands imported through the San Francisco office of the Nordisk Andelsforbund (NAF). NAF is an importing company that is jointly owned by the consumer cooperative societies of Denmark, Finland, Iceland, Norway, and Sweden. NAF's San Francisco office also buys some U.S. foods for the consumer cooperatives in Austria, Belgium, the Netherlands, and West Germany.

13/ The completely new, modern fruit and vegetable canning and freezing plant in southwestern Sweden owned by KF's subsidiary AB Foodia replaces 6 older and smaller factories and greatly expands KF's processing capacity in this product group. AB Foodia expects to increase its output by approximately one-third in the next 3 to 5 years.

On the other hand, all of the Swedish food trade executives interviewed in this study agree that large increases in the sales and market shares of retailer-label foods in Sweden are unlikely for several reasons. One reason is the rising demand from affluent consumers for increasing diversity among foods available in retail stores. To maintain customer loyalty and expand total store sales and profits, the cooperatives have been forced to stock one or two leading manufacturer brands in addition to co-op products in most product lines. Other retailers also have found that they must handle two or three leading manufacturer brands to maintain high customer traffic and sales volumes. Hence, consumer demand for product diversity is both an important brake on the expansion of retailer-label food sales and a strong force favoring rising sales of established manufacturer brands in Sweden.

Another factor limiting growth of retailer-brand food sales is the pricing policies of the principal food manufacturers, domestic and foreign, supplying the Swedish market. These manufacturers appear to be determined to maintain only small differentials between their selling prices and prices paid by retailers for similar private-label products. ^{14/} An executive of a large Swedish retailing firm said that the price differential on many processed foods is only 1 crown (about 21 U.S. cents) per case, or less than 1 cent per can. Net price differentials are even smaller because of the allowances retailers receive from manufacturers to finance periodic joint retailer-manufacturer promotions.

One objective of the pricing policies of food manufacturers is to maintain and expand sales of their products by discouraging retailers from pricing their private brands much below the competing manufacturer brands. ^{15/} Another objective is to discourage the big Swedish food retailers from adding retailer brands to their store assortments. ^{16/} Executives of large Swedish food manufacturing companies and Swedish representatives of foreign manufacturers are aware of the retailers' option to alter their merchandising policies in favor of retailer brands. The manufacturers also know that the major retailers periodically examine the profit prospects of adding a line of private-label foods. However, as one retail company executive said, as long as the major domestic and foreign food manufacturers maintain their present pricing policies, retailers, other than KF, will have no incentive to enter into or expand private-label food marketing.

^{14/} Some food manufacturers refuse to take any credit for this policy and say that they sell at relatively low prices only because the market power of the big retailers gives them no better alternatives.

^{15/} After examining prices in Stockholm supermarkets, the author concluded that retail price differentials between competing retailer- and manufacturer-label products were low. On some products, prices were equal and in general the differentials appeared to be less than in supermarkets in the Washington, D.C. area.

^{16/} In fact, Sweden's major food retailers other than KF now sell fewer private-label foods than in the past.

Several food retailing executives reported that merchandising assistance given by the sales staffs of Sweden's large food manufacturers and by Swedish representatives of foreign manufacturers is an important consideration in their decision to emphasize retailing of manufacturer brands. Finally, according to several industry executives, the leading manufacturer brands are now so firmly established in the Swedish market, as a result of successful past marketing practices, that an attempt by a retailer, other than KF, to add a line of private-label products probably would be too costly relative to estimated returns. The strong position enjoyed by the leading manufacturer brands, including several American labels, also is a major deterrent to the growth of KF brands. 17/

Manufacturers' Private-Label Foods

Although the term manufacturers' private brands seems like a contradiction of concepts, it is used to refer to a product made by one manufacturer but sold by another manufacturer under the second manufacturer's label. This variant of private-label marketing currently involves only a few products and manufacturers in Sweden. Most of the products are foods that are not produced in Sweden for climatic or technical reasons. They include potato granules, frozen sweet corn (kernels and on-the-cob), frozen citrus juices, long-grain rice, dry peas, and dried fruits. Some of these foods are imported in bulk by a Swedish manufacturer who merely repackages them under his own label for sale to retail stores and food service establishments.

Although this variant of private-label marketing now accounts for only a tiny fraction of total food sales in Sweden, it may have considerably more growth potential than the retailer-label market. The Swedish food manufacturers interviewed expressed strong interest in exploring potentials of this marketing channel with U.S. manufacturers. This interest stems from both cost and market factors. Swedish food manufacturers, like food processors in many countries, face nearly certain prospects of rising labor costs. 18/ They also are confronted by advances in production technology that require larger plants and outputs for profitable operation in a market with limited dimensions. As a result, they have a growing interest not only in increasing production efficiency but also in substituting some imported products for their own production if prices of the imported products are lower than their own production costs. In the case of complex new convenience foods, the manufacturers indicated that they might prefer not to undertake production in Sweden, or at least not until sales become large enough to make domestic production profitable.

17/ For example, the Swedish representative of an American (multinational) manufacturer claims that his client has 60 percent of the Swedish market for canned fruit. This market position is so commanding that no retailer can afford not to handle the manufacturer's products.

18/ In May 1971, wages, including fringe benefits, in Sweden's food industry were 42.2 percent above the 1967 average (23). Average hourly earnings were 12.15 Skr (about \$2.53 at current exchange rates), or about 30 percent less than earnings of U.S. food industry workers.

More specifically, the Swedish food manufacturers expressed strong interest in substantive discussions with U.S. food manufacturers on the following four types of arrangements:

- (1) Importing and marketing a packaged U.S. food product in Sweden under a Swedish manufacturer's label.
- (2) Importing a U.S. food product in bulk for repackaging and labeling by a Swedish manufacturer or for use in further processing.
- (3) Marketing a U.S. manufacturer's brand under a contractual arrangement. That is, the Swedish company's marketing division would act as the U.S. firm's marketing agency in Sweden.
- (4) Producing and marketing a U.S. product in Sweden under license from the U.S. manufacturer.

Some U.S. food manufacturers may find discussions on these arrangements well worth the limited amounts of time and expense they are likely to require. All of the large Swedish food manufacturers have marketing divisions of substantial size. ^{19/} They sell their products directly to all of the large Swedish food retailers and also give direct merchandising assistance to thousands of retail stores. Their marketing executives, salesmen, and merchandising specialists have the expert knowledge of the Swedish market that a U.S. manufacturer needs to introduce his products to Swedish retailers and consumers. Like the largest Swedish food brokerage houses that now sell the products of several U.S. food manufacturers, the Swedish manufacturers' marketing divisions can offer a U.S. company a complete package of modern marketing services on a national scale. In fact, at least three Swedish companies are performing these functions successfully for several U.S. food manufacturers now. ^{20/}

Significance for U.S. Manufacturers

Sustained growth of the Swedish economy has provided the foundation for rising levels of living and expansion of the Swedish food market, including the small private-brand segment. As chapter III indicates, consumer expenditures for food are estimated to increase about 2.6 percent annually, in constant prices, in the 1970's. As in other affluent European countries, retail sales of manufactured foods in Sweden are expected to increase about twice as fast as total food expenditures. Even more rapid annual growth

^{19/} The manufacturers contacted in this study employ from 45 to 140 salesmen and merchandising specialists.

^{20/} One Swedish food manufacturer markets a well-known U.S. brand of breakfast cereals. Another sells a line of snack foods bearing a famous U.S. label, and a third manufacturer sells a U.S. company's imitation coffee creamer and line of pet foods.

in sales of some convenience foods, such as frozen foods and prepared main dishes, are anticipated. Retail sales of health foods and winter-season fresh fruits and vegetables may also increase. 21/

As the Swedish food market develops, Sweden's imports of U.S. food products also will increase. A large share of current U.S. food exports to Sweden are manufactured products (table 1) and other items with above average sales expansion potential.

The principal beneficiaries of this expected export expansion probably will be those few U.S. food manufacturers whose brands and marketing programs are currently firmly established in Sweden. U.S. exporters of some unbranded products such as fresh, winter-season fruits and vegetables probably also will experience substantial increases in exports to Sweden.

In contrast, prospects for expanding U.S. food product exports to Sweden through greater use of the retailer-label market channel seem less favorable. Expanding sales of retailer brands in Sweden is, as a practical matter, nearly equivalent to increasing sales of co-op products. Although the co-op stores' sales are expected to increase slightly faster than total retail food sales as the cooperatives increase their market share, U.S. food manufacturers have only limited opportunity to share in this growth. As noted above, KF factories and the factories owned by other Scandinavian consumer cooperatives probably will continue to produce all but a small fraction of co-op's private-brand merchandise.

On the other hand, increasing U.S. food exports for distribution under the private labels of Swedish food manufacturers seem favorable enough to warrant careful investigation by interested U.S. food manufacturers. All of the Swedish food manufacturers interviewed in this study expressed strong interest in talking with executives of U.S. food processing companies about marketing new convenience foods and other food products that may be processed at a lower cost in the United States than in Sweden. 22/

21/ In contrast with these long-term prospects, current and near-future prospects for expanding sales of convenience and other luxury foods are limited. As noted earlier, food prices have increased recently as a result of Government programs that continue to raise prices paid to farmers. In response to the higher food prices, some consumers are buying less convenience and other luxury foods and more staple and less expensive products.

22/ The Swedish food manufacturers and retailers were reluctant to be more specific about the food products of greatest interest to them. Executives of most of Sweden's large food retailing, brokerage, and manufacturing companies visit the United States about once a year to confer with major clients and suppliers and to discover new products, marketing methods, and processing techniques. A U.S. company can obtain the names and addresses of Sweden's major food retailing, brokerage, and manufacturing companies by writing the Agricultural Attache, American Embassy, Strandvagen 101, Stockholm, Sweden.

III.--SWEDEN'S DYNAMIC FOOD MARKETING SYSTEM

As a major sector of a nation's economy, food marketing is affected by the basic economic, demographic, social, and political forces that shape the total economy. Therefore, knowledge of these elements is important to understanding the food marketing system's history, structure, operation, problems, and probable future developments.

Major Socioeconomic Forces

Area and Resources

Sweden is the largest of the five Nordic countries of Europe. ^{23/} The January 1972 population was an estimated 8.12 million, about one-tenth below that of Michigan. With an area of 173,423 square miles, including about 100,000 lakes, Sweden is the fourth largest country in Europe and about one-tenth larger than California (14). ^{24/} Although the country is in the same northern latitudes as Alaska, the Gulf Stream provides a comparatively moderate climate that permits temperate-zone farming.

Sweden's high level of industrial development is mainly based on her huge deposits of iron and other valuable ores, large forests, abundance of hydroelectric power, modern industrial plants, and skilled labor force. Other important factors are a stable, democratic political system and a policy of neutrality that has kept Sweden out of war since 1814. Today, the country is one of the world's smallest but most industrially, economically, and culturally advanced nations. The standard of living, markets for consumer goods, and business practices closely resemble those of Canada and the United States.

Population and Urbanization

Sweden's population increased from 7.5 million in 1960 to 8.05 million in 1970, or about 0.75 percent a year (12). The official 1980 projection is 8.56 million. Annual growth rates of 0.6 percent in 1970/75 and 0.5 percent in 1975/80 are expected. The projections are based on assumptions of little change in the low current level of net immigration, further decreases in the low 1970 birth rate of 13.7 per 1,000 people, and no change in the low 1970 death rate of 10 per 1,000 people.

^{23/} The other Nordic countries, which are closely allied to Sweden politically, economically, and culturally are Denmark, Finland, Iceland, and Norway.

^{24/} On the European Continent, only Russia, France, and Spain are larger in area.

As in most countries, the trend to urban living continues unabated in Sweden. During 1950-70, employment in agriculture decreased from 20.3 to 7.4 percent of total employment (24). With agricultural employment expected to decrease about 5 percent a year during the 1970's, farming may require no more than 4 percent of the 1980 labor force. 25/

Sweden's largest cities are losing residents as rising incomes and numbers of automobiles stimulate migration to the suburbs. For example, during 1960-70 the Stockholm metropolitan area's population increased by 74,000 to 1,345,000, but the city's population fell by 68,000 to 740,000. In 1970, nearly one-third of all Swedes lived in the three largest metropolitan areas of Stockholm, Gothenburg, and Malmo. These areas, along with several middle-sized cities, also are Sweden's fastest growing urban complexes.

Another population development with important impacts on food consumption and shopping patterns is the increasing number of Swedes who are aged 65 and over. These persons accounted for 11.7 percent of the population in 1960 and 13.7 percent in 1970. The 1980 forecast is 15.6 percent. Sweden's life expectancy levels--now 72 and 76 years for day-old boys and girls, respectively--are not only the world's highest but are also rising slowly.

Economic Growth

Since the end of World War II, Sweden has had more than 25 years of almost unbroken economic growth, full employment, and rapidly rising wages, labor productivity, and standards of living. Modern industrial plants, a skilled labor force, strong foreign demand for certain Swedish goods, and the absence of war damage contributed to an early and rapid expansion. This growth stimulated rapid changes in the structure of the economy, food marketing, consumer food-buying patterns, and styles of living.

In 1970, Sweden's gross national product (GNP) per capita was \$4,041, second only to the United States' \$4,756 (9, 27). 26/ During 1960-65, aggregate GNP rose 5.4 percent annually in constant prices (table 2). Total consumer expenditures increased 5.0 percent a year. During the next 5 years, annual growth rates in GNP and consumer spending were considerably lower--3.9 and 3.4 percent, respectively.

During the 1960's, food expenditures increased 2.5 to 2.7 percent a year, materially benefiting the food industry. Food expenditures are expected to continue to increase at about this rate and to decline only

25/ The number of Swedish farms decreased from 232,900 in 1961 to 155,300 in 1970 (2), and may decline to about 80,000 by 1980.

26/ These estimates are based on U.S. and Swedish national accounts data. They differ from estimates made by the Organization for Economic Cooperation and Development (OECD), which are \$4,850 for the United States and \$3,820 for Sweden. Furthermore, the difference in real incomes may be greater than the difference in money incomes because of Sweden's comparatively high level of consumer prices.

slightly as a percentage of total consumer spending. By 1975, the average Swedish family will spend about 24 percent of its budget for a "food basket" that will be economically, but not necessarily nutritionally, inferior to a U.S. family's food basket--which will probably cost less than 16 percent of the family's budget. Table 3 compares per capita food consumption in the two countries in 1968, the most recent year for which such data are available.

Table 2.--Annual percentage changes in selected economic indicators, Sweden, 1960-70, and forecasts, 1970-75 1/

Economic indicator	1960/65	1965/70	1970/75
		<u>Percent</u>	
Gross national product.....	5.4	3.9	3.8
Private consumption.....	5.0	3.4	3.3
Public consumption.....	4.8	5.2	4.5
Food expenditures.....	2.5	2.7	<u>2/</u> 2.6
Labor productivity per hour.....	5.6	5.2	4.9
Employment, total hours.....	0.3	-0.9	-0.8
Population.....	<u>3/</u> 0.75		0.6

1/ Percentage changes based on deflated (real) values.

2/ Author's estimate.

3/ 1960-70.

Source: (12).

Table 3.--Per capita food consumption and nutritional indicators, Sweden and the United States, 1968

Item	Sweden	U.S.
	<u>Number per day</u>	
Nutritional indicators:		
Calories.....	2,748	3,207
	<u>Grams per day</u>	
Protein.....	78.2	94.6
Vegetable.....	23.9	26.6
Animal.....	54.3	68.0
Fat.....	124.1	153.5
	<u>Kilograms per year</u>	
Food consumption:		
Total cereals.....	59.6	64.8
Bread grains.....	54.8	52.7
Potatoes and sweet potatoes.....	76.2	45.2
Pulses.....	1.0	3.0
Total meat.....	51.3	93.8
Beef and veal.....	18.8	38.1
Pork.....	25.0	27.8
Poultry.....	3.5	20.4
Fish.....	15.4	4.2
Milk, whole.....	116.6	106.6
Cheese, hard.....	8.3	4.8
Frozen dairy products.....	n.a.	13.0
Butter.....	6.7	2.5
Margarine.....	16.4	4.9
Other fats and oils.....	14.2	17.0
Eggs.....	11.2	18.4
Vegetables, fresh.....	34.6	63.5
Vegetables, frozen.....	n.a.	4.3
Fruit, fresh, incl. citrus.....	63.2	45.9
Fruit, canned, and juices.....	15.3	16.1
Fruit, frozen.....	n.a.	6.3

Source: (15).

One reason for the high percentage of family expenditures for food in Sweden is the large and rising transfers of expenditures for such personal services as medical care, with corresponding transfers of income through higher taxes from the private to the public sector. Other factors are the traditional inelasticity of demand for food in Sweden and the nation's policy of raising farm product prices. 27/

Automobiles and Refrigerators

Development of a modern system of food distribution depends on widespread ownership of automobiles and household refrigerators. They are responsible, in large measure, for the growth of supermarket retailing, closure of small foodstores, construction of suburban shopping centers, and many other modern developments in food marketing. They also affect the kinds of food people buy, especially perishables, frozen foods, and meals in restaurants.

Sweden had only 36 cars per 1,000 people in December 1950 and 159 per 1,000 a decade later. By the end of 1970, this density ratio was 283 and still rising (24). A 1969 survey of Swedish households revealed that 92 percent owned a refrigerator and that nearly 45 percent had a home freezer (24). 28/ The same "kitchen revolution" that swept through all industrial nations during the last quarter century also increased ownership of electric and gas stoves and food mixers to 92 and 47.5 percent, respectively, of all Swedish households. In other words, most Swedish families today have invested in the automobiles and household equipment essential to development of a modern food marketing system.

Employment of Women

Sweden's percentage of married women working outside their homes is the world's highest. It is also rising rapidly. It was 45.9 percent in 1966 and 52.5 percent in 1971 (9). By 1980, more than 60 percent of all Swedish married women are expected to be gainfully employed. This development, which is expected to increase consumer demands for convenience foods and modern shopping facilities, is the result of several important socioeconomic forces. They include changing concepts of the status of women, strong demands for the income needed to buy a steadily rising standard of living, rapidly rising

27/ Food prices continue to lead the advances in prices of goods and services Swedish consumers buy. In Aug. 1971, the index of retail food prices, 1949=100, was 316. The index for all items was 256. During 1966-71, food prices increased 31 percent as the average of all consumer prices rose 27 percent (23).

28/ Most European household refrigerators and freezers are much smaller than similar equipment in American homes. Few European families can afford American size units or have enough kitchen space for them. In 1969, the average new apartment in Sweden had only 750 sq. ft. of total space. The average new house had only 1,186 sq. ft. (12).

taxes, 29/ and Government programs that encourage married women to seek jobs outside their homes. For example, Sweden's 1970 tax reform lowered taxes on the incomes of married women. Numbers of child care centers are increasing rapidly. By increasing numbers of gainfully employed married women, Sweden decreases her need for foreign workers and the magnitude of the economic and social problems associated with this immigration.

On the other hand, labor participation rates among men and single women aged 16 and over are decreasing because young people remain in school longer than in the past. Finally, employment of domestic servants--traditionally chiefly women--has dropped from 5.3 to 1.0 percent of total employment in the past 30 years as better employment alternatives have become available in Sweden's expanding economy.

Food Distribution

Throughout Europe, rapid changes in national food marketing systems and practices have been closely associated with high post-war economic growth rates. Modernization of Swedish food distribution began almost immediately after World War II and nearly a decade before similar food marketing revolutions began elsewhere in Western Europe. The pace of change in Swedish food marketing increased in the 1950's and remained high in the 1960's. Although modernization may moderate somewhat in the 1970's, food marketing will continue to be a dynamic system. All key market variables have been affected and Sweden's food marketing system is becoming more like those in North America in all basic respects. 30/

Foodstores

Before World War II, Swedish foodstores were small, traditional, counter-service shops that sold a limited assortment of staple foods to a few nearby families at high gross margins and low net profits. In 1941, the consumer cooperatives opened Sweden's (and Europe's) first successful self-service foodstore in Stockholm (3). 31/ Shortly after World War II, conversions of traditional shops to self-service increased sharply. In January 1951, Sweden

29/ Compared with U.S. taxes, Swedish taxes are high. For example, Sweden's value-added tax of 15 percent approximates a 17.65-percent retail sales tax. The public sector absorbs about 42 percent of Sweden's GNP, compared with about 28 percent in the United States (2). Income and other direct taxes on Swedish households, which were 20.6 billion Skr in 1968, are expected to be 48.1 billion Skr in 1972, or 57 percent higher (9).

30/ Many European food industry executives interviewed in this and other studies estimate that in developing a modern food marketing system, Sweden leads other West European countries by 3 to 15 years but is behind developments in the dynamic U.S. and Canadian food marketing systems perhaps as much as 3 to 5 years.

31/ The first U.S. self-service foodstore opened in 1916 and the first super-market was built in 1930.

had 199 self-service stores (6); a decade later, there were 5,450; and in January 1971, there were 8,540, including 1,420 supermarkets and supermarket-size food sections in department and variety stores. 32/

As Swedish food retailers opened new supermarkets, department stores, and other self-service shops, they closed thousands of small shops. In January 1961, Sweden had an estimated 35,250 foodstores, or about one store per 210 people (6). Ten years later, there were only 22,790 foodstores, or about one store per 355 people. During 1961-70, Sweden lost more than 100 small foodstores each month.

Although the 1,420 supermarkets operating in January 1971 were only 6 percent of all foodstores, their share of 1970 food sales were nearly 44 percent. 33/ In contrast, the 14,250 counter-service shops, including an estimated 10,000 specialty shops, had only 21 percent of the national retail food market (6).

In the 1970's, thousands of Sweden's small foodstores will be replaced by comparatively few modern supermarkets, hypermarkets, and discount and traditional department stores. 34/ Among the 12,790 grocery stores in business in January 1971, 8,295 had 1970 sales below 1 million Skr (about \$208,000). Average annual sales of the 10,000 specialty shops were only 300,000 Skr (about \$62,500). As studies of food marketing in Sweden (7) and other European countries (19) have shown, the long-term survival prospects of these small shops are not bright. 35/ On the other hand, prospects are reasonably favorable for Swedish supermarkets to achieve by 1980 the same 80-percent market share that U.S. supermarkets probably will have in that year. 36/

32/ The U.S. and Swedish definitions of a supermarket are basically the same except that in Sweden, the store's annual sales must be at least 3 million Skr (about \$625,000), compared with the U.S. minimum of \$1 million.

33/ The 38,300 U.S. supermarkets' 1970 market share was 75.4 percent (21).

34/ In Europe, a hypermarket is a self-service store selling a broad range of consumer goods on a discount, or low-margin, basis. A hypermarket must have a sales area of not less than 2,500 sq. meters (27,000 sq. ft.). Most are much larger. Many display 15,000 to 40,000 articles, including 4,000 and more food products in a supermarket-size food section. Sweden had 16 of these super stores in 1970 and may have 40 by 1975 (8).

35/ A 1969 analysis of Swedish foodstores revealed that supermarkets had net profits of about 1.0 percent of sales; superettes' net profits averaged only 0.6 percent; but foodstores with annual sales below \$200,000 had net losses. That is, net incomes of owners of these small shops were, on average, less than wages paid in other employment requiring comparable skills (7).

36/ The Swedish law that for many years prevented foodstores from doing business after 6 p.m. expired at the end of 1971. With more daily and weekly hours of operation, Swedish supermarkets undoubtedly will increase their sales and market shares. In addition, removal of the ban on evening operation now makes convenience foodstores of the U.S. type economically feasible in Sweden. Early in 1972, a few independent food retailers began to convert their shops into convenience stores and to advertise this fact. In the near future, Sweden's major food retailing organizations also may establish chains of convenience foodstores. In the United States, these stores are the fastest growing segment of the grocery store industry.

Wholesalers

In 1963, Sweden had 2,808 food wholesalers of all types (22). Of these firms, only 3.2 percent had annual sales of 20 million Skr (about \$4 million) and more, the minimum that industry executives estimate is needed for a profitable operation (17). Although more recent data are not available, leaders of the Swedish food trade say that most of the small wholesale firms have disappeared.

Even among Sweden's largest general-assortment food wholesalers, mergers and acquisitions have taken a heavy toll in the past two decades. In 1950, Sweden had 90 of these firms with average annual sales of 6 million Skr (5). By 1965, there were 27 with sales averaging 51 million Skr. The number was down to 15 in 1970 and in 1971, it was further reduced to 14 when Sweden's largest independent food wholesaler was acquired by his competitors.

All 14 of the large wholesaling firms are members of ASK, which is Sweden's central purchasing, importing, and management and marketing service organization. 37/ Affiliated with the 14 wholesaling firms (and ASK) are 1,118 independent food retailers who are members of the VIVO and FAVOR voluntary chains. In 1971, these independent food retailers accounted for about 8.4 percent of Sweden's total retail food sales (table 4). In addition, six ASK wholesalers are members of ASK's ASTOR division. ASTOR, which is Sweden's largest supplier of foodstuffs to the rapidly growing institutional (food-service) trade, supplies restaurants, hotels, hospitals, armed forces, and other public and private food-service establishments. The ASK wholesalers also operate about 30 cash-and-carry wholesale houses. These serve many small independent foodstores and restaurants whose owners appear to prefer lower prices to delivery and credit services.

Because of economies of scale in food wholesaling and increasingly intense competition in food distribution, the 14 large firms may ultimately merge with the ASK central organization--resulting in a single company serving one voluntary chain of independent retailers.

Market Organization

Like the number of food wholesaling firms, the number of Swedish food retailing firms has declined sharply in recent decades through mergers, acquisitions, and liquidations. As a result, the Swedish food market is highly concentrated. In 1971, the eight largest retailing firms operated 9,730 of the 12,790 grocery stores and made nearly 85 percent of total grocery stores sales (table 4). 38/ The eight firms' share of total retail food sales was

37/ ASK's complete name is ASK-Bolagens Ekonomiska Forening. The company was founded in 1937. A wholly owned subsidiary, UNIL, AB, handles all ASK imports. UNIL is part owner of United Nordic, Inc., a Scandinavian firm that coordinates food imports for the major independent wholesalers in Sweden, Denmark, Norway, and Finland. The Swedish UNIL firm is the headquarters of United Nordic.

38/ In the mid-1960's, Sweden's 12 largest food retailers had approximately the same share of the grocery trade (17).

nearly 74 percent. Moreover, the two largest retailers--the retailer cooperative (ICA) and the consumer cooperative (KF) chain of food and department stores--accounted for more than 64 percent of total grocery store sales and more than 55 percent of total foodstore sales.

Table 4.--Number of food retailing firms in Sweden and their market shares, by type of organization, 1971

Type of organization	Number of firms	Retail food market shares			
		Total food market 1/		Grocery sector 1/	
		Stores	Sales	Stores	Sales
Consumer cooperative (KF)...	1	10.9	26.1	19.4	30.4
Producer cooperative (SLR)...	1	0.3	0.7	0.6	0.8
Major corporate chains 2/...	3	1.1	9.2	1.9	10.8
Retailer cooperative (ICA)...	1	25.5	29.2	45.4	34.0
Voluntary chains (VIVO and FAVOR).....	2	4.9	8.4	8.7	9.8
Independents.....	3/	57.3	26.4	24.0	15.2
Total.....	1/	100.0	100.0	100.0	100.0

1/ In the total market, there were approximately 22,800 stores with sales of 21,200 million Skr in 1971. The grocery sector had about 12,800 stores with sales of 18,200 million Skr.

2/ The three chains are NK-EPA (NK-Turitz & Co.), Tempo (Ahlen & Holm), and Metro.

3/ Independents, including several small chains, are estimated at slightly fewer than 3,000 grocers plus 10,000 specialty foodstores.

Source: Computed from data supplied by Handelsn Utredningsinstitut (Retail Research Institute), Stockholm.

Although the level of food distribution concentration in Sweden is possibly the highest in the world, Swedish food industry executives say that it will rise. They expect that ICA and KF will soon have nearly equal market shares totaling 75 percent of grocery store sales. Fifteen percent of the market will be shared by a few small food chains and many independent grocers (but fewer than in 1971). Some industry leaders think that there will soon be five rather than six major food retailers. The "Big Five" will be ICA, KF, two corporate chains, and one voluntary chain. Together they will hold 90 percent of the grocery market.

In addition to about 90 percent of the grocery trade, and perhaps 85 percent of total retail food sales, the major food retailers undoubtedly will have a dominant position in the institutional (food-service) market. As noted above, the ASK wholesalers now are the principal suppliers of this growing segment of Sweden's total food market. In addition, the ICA retailer cooperative is expanding its chain of about 150 restaurants and cafeterias. The consumer cooperatives that own a chain of hotels and restaurants are expanding these operations. 39/

In connection with these developments in the structure of the food marketing system, Sweden's large food retailers are rapidly modernizing their internal structures. Purchasing, wholesaling, retailing, and merchandising operations are being integrated. Top management is being given greater control over organization, policy, and operations to improve the firms' efficiency, profits, and market positions.

The consumer cooperatives have been transforming their organization from a national federation of local societies into a single, national consumer cooperative. 40/ In 1950, there were 681 local societies operating 8,017 shops. By 1970, mergers had reduced the number to 232 societies operating 2,786 shops that were generally larger than those in 1950. In the same period, sales rose from 1,675 million Skr to 8,100 million Skr and member households rose from 0.9 million to 1.6 million (6, 10). In the near future, the Swedish consumer cooperative may have no more than 15 to 25 regional divisions of the national society. These divisions will probably operate about 1,000 supermarkets, superettes, and department stores, plus chains of hotels, restaurants, and gasoline stations. The retailer cooperatives and the voluntary chains are also rapidly moving toward the more centralized structures and management that the corporate chains now have.

Finally, Sweden's big, integrated food distribution companies, like comparable North American firms, are strongly consumer oriented. They are aggressively striving to increase their sales, profits, and market shares. Competition among them is intense. From suppliers they want the new products and merchandising assistance that will help them achieve their goals. These

39/ The consumer cooperatives also operate a national chain of auto and gasoline service stations which, on the basis of North American and European experience, can be profitable outlets for candy, soft drinks, and snack items.

40/ Consumer cooperatives in several other European countries have made this structural change in recent years or are now in the process of making it (18, 19, 20).

modern Swedish companies are managed by professionally trained executives supported by skilled buyers and merchandisers. They know their domestic market well. They also are well informed about food marketing in Canada and the United States. For U.S. manufacturers to successfully market their products through these Swedish retailers, they must apply the same marketing expertise, strategies, and techniques that they use in U.S. and Canadian markets.

Food Manufacturing

Sweden's food and feed manufacturing industry is a small, growing, modern, highly protected, domestically oriented, and highly concentrated industrial sector. 41/ In 1969, the industry consisted of 1,490 factories with 64,830 employees (table 5). Factory output was valued at \$2,800 million and the value added in manufacturing was \$705 million. In 1969, Sweden's food and feed processing sector had 11 percent of the nation's factories, 7.3 percent of factory employment, 8.7 percent of value added by manufacturing, and 15.9 percent of factory sales. 42/

Table 5.--Food and feed factories in Sweden and number of employees per factory, by type of plant, 1969

Type of plant	Factories	Employees <u>1/</u>
	<u>Number</u>	
Meat packing and processing.....	268	18,010
Milk and milk products.....	225	8,336
Fruit and vegetable processing.....	49	6,639
Fish and fish products.....	81	2,774
Edible fats and oils.....	8	1,435
Grain milling.....	29	1,189
Bread and bakery products.....	674	15,697
Sugar refining.....	8	2,099
Chocolate products, confectionery.....	51	4,530
Other food products.....	61	2,901
Animal feedstuffs.....	36	1,220
Total.....	<u>1,490</u>	<u>64,830</u>
All manufacturing.....	<u>13,583</u>	<u>887,229</u>

1/ Excluding working owners.

Source: (24).

41/ Feed manufacturing data is included in this section because data sources combine food and feed manufacturing into one industrial sector.

42/ Sweden's most important industries are paper and pulp, lumber, iron and steel, chemicals, machinery, shipbuilding, aircraft, motor vehicles, textiles and apparel, and food products (14).

In contrast with the strong export orientation of most Swedish manufacturers of nonfood products, the food and feed manufacturing industry is almost completely oriented to the domestic market. In 1969, less than 5 percent of the industry's output was exported. This small export volume reflects decades of industry operation under Government programs (see ch. II) that establish high domestic prices and high import taxes on most of the industry's raw material inputs.

A Dynamic Industry

Despite protection from import competition, Sweden's food and feed manufacturing industry continues to be a dynamic, expanding industrial sector. During 1959-71, real output increased about 52 percent, or 3.5 percent annually (23). Labor productivity increased even more rapidly as total industry employment declined slightly and annual hours per worker decreased sharply. 43/ The industry greatly altered its mix of products to meet changing consumer demand, especially rising demand for convenience foods.

For years, the Swedish food manufacturing industry has been modernizing its organization, factories, and production and marketing methods. During 1956-69, the number of factories decreased from 2,085 to 1,490 (table 6), for a net loss of about four factories a month. Today (1972), Sweden probably has no more than 1,350 food and feed factories of all types.

Decreases in factory numbers continue to be concentrated among factories employing 50 and fewer workers. As in other industrial countries, substantial increases in factory numbers continue to be made only among plants employing more than 100 people (18, 19, 20). For a complex of technological and economic reasons, smaller factories usually are not profitable.

Rising Levels of Concentration

As the number of food and feed factories has decreased, the level of industry concentration has increased (table 7). Most large food manufacturing enterprises in a major product group are members of a farmer cooperative marketing association as well as members of KF--the Federation of Swedish Consumer Cooperatives.

About 80 percent of Sweden's total agricultural production is marketed through the several marketing cooperatives that are members of the powerful Swedish Farmers' Association. Plants operated by the Swedish Dairies Association process about 98 percent of the national milk supply. The Swedish Farmers' Selling and Purchasing Association, as a result of many acquisitions of private companies in recent years, has about 67 percent of the Swedish market for flour and flour mill products, including pasta products. The KF plants have an additional 27 percent of this market. The Swedish Farmers' Meat Marketing Association slaughters 85 percent of all the meat animals sold by Swedish farmers and KF plants have a large share of the

43/ The standard work week was reduced in 1968 from 45 to 42.5 hours and in 1970 to 40 hours. A paid 4-week vacation became mandatory for all workers in 1965 (14).

Table 6.--Food and feed factories in Sweden, by size of plant, 1956, 1965, and 1969

Workers per plant <u>1/</u>	1956	1965	1969
		<u>Number</u>	
1 - 10.....	1,263	893	716
11-20.....	452	347	308
21-50.....	187	291	249
51-100.....	108	112	113
101-500.....	69	81	96
501 and over.....	6	7	8
Total.....	2,085	1,731	1,490

1/ Excluding salaried employees and working owners.

Source: (24).

Table 7.--Estimated market shares of large food manufacturers, by selected products and product groups, Sweden, 1971

Product group	Firms	Market share
	<u>Number</u>	<u>Percent</u>
Milk and milk products, excluding ice cream.....	1	96-99
Ice cream.....	2	83
Margarine.....	2	100
Sugar.....	1	100
Catsup.....	1	70
Chocolate candy, etc.	4	90
Bread.....	1	25
Biscuits, cookies, wafers, etc.	2	73
Dry soups.....	1	60
Flour, cake mixes, and pasta products..	2	94
Jams, jellies, marmalade, etc.	1	80
Fresh meat.....	2	90
Processed meats.....	2	63

Sources: Interviews with executives of leading food retailing, wholesaling, manufacturing, and brokerage companies in Sweden, Dec. 1971.

remaining 15 percent. The Swedish Egg and Poultry Marketing Association, which operates 18 egg-packing stations, has about 70 percent of the wholesale egg market and a strong position in the poultry meat market. Farmers' cooperatives also dominate the production and distribution of other products such as starch and potato alcohol, but only the marketing of furs, sugar, and oilseeds.

The cooperatives hold strong to dominate positions in the markets for seed, fertilizer, machinery, and other farm inputs. Finally, the farmers' cooperatives operate a small chain of foodstores in rural areas and are heavily involved in mortgage and commercial banking and insurance services for farmers.

In the years ahead, many small family-owned food manufacturing enterprises are expected to disappear through liquidations, mergers, and acquisitions. The farmer and consumer cooperatives also are streamlining their organizational structures and consolidating their processing operations in fewer, larger, more efficient factories. As a result, currently high levels of concentration in Swedish manufacturing are expected to increase, not diminish. A few large private companies and the consumer and farmer cooperatives will increase their market shares in most major product groups. Swedish food manufacturing executives say that several factors, including some peculiar to Sweden, support these expectations. Foremost among these forces are the advances in production technology and modern marketing and management methods that are increasing the economic advantages of large-scale food manufacturing and marketing in all countries. Other important forces are the small size of the Swedish food market and the rising concentration of market power in Swedish food retailing.

The Swedish food industry executives interviewed in this study stressed that the small size of the Swedish food market severely limits the volume of each product that food manufacturers, domestic and foreign, can sell in Sweden. Several of Sweden's largest multiproduct food processors had average 1970 sales of only \$200,000 per product. Such small volumes, together with increasing economies of scale in modern food processing and marketing, assure rising levels of industry concentration. More manufacturers will be forced to have multiproduct operations. Furthermore, the number of large multiproduct enterprises that can operate profitably in each major product line will be limited: unlike the U.S. food market, where food manufacturers can often gain most of the economies of scale with a market share as low as 1 or 2 percent, the Swedish food market is big enough for only two to four large, modern, multiproduct manufacturers in each major product group. Few of these enterprises will be large compared with similar firms in some other European countries and the United States. 44/

Another factor contributing to rising concentration in Swedish food manufacturing is rising concentration in food retailing. Manufacturers say that they must increase their market shares through mergers and other means to acquire the countervailing market power needed to deal more effectively with the increasingly powerful buyers of their products. 45/ Also, large efficient managers are better able than small firms to absorb the strong downward pressures from retailers on manufacturers' prices and profit margins.

44/ For example, one large Swedish food manufacturer producing some 60 products and enjoying a market share of about 65 percent in his industry subsector had 1970 sales of about \$12 million.

45/ Swedish retailers offer a similar justification for their efforts to increase their countervailing market power against manufacturers.

The highly concentrated structures of Swedish food retailing and manufacturing directly affect the manufacturers' marketing strategies and methods. In their marketing programs, the large food manufacturing companies give top priority to direct merchandising of their products to Sweden's leading food retailers. These food manufacturers have large staffs of skilled salesmen and merchandising specialists to work directly with the major retailers' food buyers and store managers. The U.S. food manufacturers whose products are sold in most Swedish foodstores also emphasize direct merchandising. They are represented in Sweden by modern food brokerage houses that employ substantial numbers of salesmen and merchandisers or they have contracts with a Swedish food manufacturer for the services of his sales organization. Although direct merchandising is expensive 46/, the food brokers and industry executives interviewed in this study agree that no other marketing strategy gives better sales results in Sweden. 47/

In addition to structural conditions, the costs of and limitations on advertising tend to force manufacturers to favor direct merchandising. Compared with food advertising in the United States, food advertising in Sweden is expensive per unit of sales. Also, fewer media are available in Sweden. Both factors tend to weaken a manufacturer's ability to communicate directly with consumers and, therefore, to weaken his market position relative to that of retailers. Commercial advertising is not allowed on the publicly owned television and radio networks. Outdoor advertising is severely restricted. Newspapers, magazines, and direct mailings are the principal advertising media, and Sweden's largest circulation magazines are essentially house organs of the two largest food retailers (11). 48/ Not surprisingly, food manufacturers participate frequently in joint retailer-manufacturer promotions, pay most of the cost of these promotions, spend comparatively little on other advertising, and concentrate their marketing effort on direct merchandising either by their own staffs or those of their representatives.

In summary, as the experience of U.S. manufacturers whose products have been sold in growing volumes in Sweden for years demonstrates, direct merchandising through a modern, professional marketing organization continues to produce satisfactory results in terms of sales growth and profits.

46/ The annual cost of a salesman to manufacturers and brokers was about \$16,000 in 1971. Because of economies of scale in direct selling, annual product sales of at least \$5 million are needed to cover the costs of even a small sales force.

47/ The U.S. food manufacturers that export to Denmark also have found that direct merchandising is the most effective strategy in that small, highly concentrated market (19).

48/ These are "Vi," the consumer cooperatives' weekly family journal, and "ICA-kuiren," a similar journal of the retailer cooperatives. U.S. products receive limited exposure through advertisements in the few U.S. magazines sold in the larger Swedish cities. A high and steadily rising percentage of the Swedish population is fluent in English.

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